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The National Budget System Reform and its contribution to the Quality of Public Expenditure

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The national public budget system reform and its contribution to the quality of public expenditure

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Acronyms

IADB	Inter-American Development Bank
CAR	Result-based Management Conventions
CEPLAN	National Planning Center
CUT	Unique Account of the Treasury
DGPM	Directorate General of Public Sector Multiyear Programming
DGPP	Directorate General of Public Budget
DNPP-MEF	National Directorate of Public Budget
EDEP	Design Assessment and Budget Execution
IMF	International Monetary Fund
INEI	National Institute of Statistics and Data Processing
LOPE	Organic Law of the Executive
MEF	Ministry of Economy and Finance
OSCE	Public Procurement Authority
PCM	Presidency of Council of Ministers
PE	Strategic Programs
PEI	Institutional Strategic Plans
PESEM	Multiyear Sector Strategic Plan
PIT	Institutional Programs
POI	Institutional Operational Plans
PPE	Strategic Budgetary Programs
SIAF	Financial Administration Integrated System
SIGA	Administrative Management Integrated System

1. Executive Summary

The national system of public budget is one of the eleven administrative systems related to the public expenditure management, which according to the Organic Law of the Executive perform the function of regulating the use of resources in the public administration entities, promoting effectiveness and efficiency. Specifically, the budget system performs three key functions: The allocation of resources based on needs, priorities, mid and long-term view; the promotion of the quality of spending in terms of operational efficiency and profit maximization to society; and the macroeconomic stabilization by observing the fiscal rules and expenditure control. That is, the budget system is a strong tool to contribute to the social and economic progress of the country, by its power to allocate resources.

The budgeting is a process by which the public production is formulated, approved, implemented and evaluated for a given period and the real and financial resources that production demands are assigned; the budget is a technical and political tool at a time.

The national public budget grew 107% between 2005 and 2010, rising from S /. 49.800 million to S /. 103.000 billion during this period. However, indicators of coverage and quality of essential services have not shown a similar trend, which is why there is concern in society about the effectiveness of the State to efficiently use the resources from economic growth to promote its development.

This paper analyzes and discusses the background of the current national budget reform and efforts that Peru has made to improve quality of public spending. It presents the conceptual framework behind the reform, as well as the view and progressiveness in its implementation.

It also gives a brief analysis of the main methodological elements used to implement the reform and the potential of support which can mean the new integrated system of public sector financial management. Finally, some strategies are presented to complete the reform in the coming years and the need for cooperation and technical assistance for successful implementation of one of the most important reforms that the country needs.

2. Background of the budget system reform

2.1 Attempts to reform and improve expenditure in Peru[1]

In several countries around the world and over many decades, there have been several initiatives to modernize the State using the budget as a key tool to achieve greater efficiency of expenditure, enhancement of public utilities and, therefore, changes in the population's living conditions.

In the case of Latin America, several efforts have been made to modernize public administration, although none of them has reached the levels applied in developed countries in terms of budget. While results-based management is a widely accepted concept in the region, most countries have chosen to implement such efforts through monitoring and assessment systems, as well as through performance agreements, and few cases through budget process.

In the case of Peru, during the last two decades, efforts have been made to reform the State, in general, and in its public administration, in particular. In the 90s, the economic model and the role of the State have changed towards openness and deregulation; such conditions allowed to keep favorable performance in terms of economic growth and stability currently.

Regarding the enhancement of public expenditure, management tools were promoted such as the agreements concluded between some ministries and public entities; these agreements have included performance goals and, generally, some kind of incentive. For example, the Management Agreements executed from 1997 to 1999 between the Ministry of Health and some hospitals and health networks, that were reintroduced in 2002 with Health Regional Directorates; Management Agreements introduced between 1999 and 2005 by the National Fund for Financing of Business Activities of the State - FONAFE; management agreements to be signed by the Presidency of the Council of Ministers (PCM) as provided by the Framework Law for the Modernization of the State[2]; and Results-based Management Conventions (CAR) between the National Directorate of Public Budget (DNPP/MEF) and a number of public entities between 2002 and 2006, and reintroduced in the context of the Results-based Budget of 2008[3]. Specifically, regarding the improvement of public expenditure in Health, during the years 1997 and 2000, the Ministry of Health with the support of Project 2000, implemented the Budgetary Program System (SPP) based on costs of health services. This was a first attempt to link budget to health to results in health that did not have enough support from the Ministry of Economy and Finance (MEF) for consolidation and extension.

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[1] Extracted and adapted from Working Documento "From the Institutions to the Citizen: The Reform of Results-based Budget in Peru", submitted in the regional meeting of CEPAL, March 2011, Santiago de Chile; Ministry of Economy and finance / General Directorate of Public Budget.

[2] Law No 27658 dated January 30, 2002.

[3] Director Resolution N° 052-2008-EF/76.01

Past initiatives had a positive impact at the time[4] and introduced some valuable elements for management, such as the use of performance indicators and an approach prioritizing the results rather than the processes, but it has a transient effect mainly because of decreasing political support. In most cases, these tools were used in a poorly articulated way and without further complement with those of the Strategic Planning mentioned above.

Since 2000, the public sector began to use some tools related to Strategic Planning, such as the Multiyear Sector Strategic Plan (PESEM) and Institutional Strategic Plans (PEI), both having a medium-term view, Institutional Operational Plans (POI) as short-term instruments. While this kind of initiatives and instruments respond to the principles of results-based management, they have no real articulation with the budget process and thus many times become reference documents instead of management tools for decision making.

The 2006 budget identified nine priority actions related to social sectors, which may enjoy budget protection. Similarly, the Balancing Act of that year determined that 30% of the additional appropriations would be allocated to these shares, which initially was not met because of the weakness of the applications made by sectors, that could not hold how, why, or what result would be obtained if these resources were allocated.

The results of these initiatives led the National Directorate for the Public Budget to draw the conclusion that, in order to promote enhanced public management and to achieve a greater effectiveness in the use of public resources, a radical transformation in the core of the national system of public budget was needed.

2.2 Progress and challenges in the reform of the public budget system

This is how Act No 28927, 2007 Public Sector Budget Act included in chapter IV "Implementation of Results-based Budget", which established result-based budget management and included the idea of Protected Programs for eleven Priority Actions that not only would enjoy budget protection as in the past, but would also have performance indicators and would be subject to a monitoring process.

Also, the institution of Strategic Budget Programming (PE) was created; this would apply to the entire public sector in the budget process for fiscal year 2008, and DNPP was instructed to lead the change process. However, during the execution of 2007 budget, progress was not achieved because resources were not allocated and no appropriate indicators were defined for such programs. Despite of this, the beginning of change was recorded and from 2008, the allocation of resources to PEs and development of appropriate indicators began.

Within the framework of such law, the public sector budget bill for fiscal year 2008 included five Strategic Programs (PE) related to a great extent to the eleven Priority Actions of 2007 budget. These five PPE were: Maternal and Neonatal Health,

[4] See consultancy reports in the following addresses:
http://www.mef.gob.pe/DNPP/documentos/UsoyEfectividaddelosConveniodeGestion.pdf y,
http://www.mef.gob.pe/DNPP/documentos/EvaluaciondelaAplicaciondelosCARs2005.pdf

Articulated Nutrition Program, Learning Achievements at the end of III Cycle, Population Access to Identity, and Access to Basic Social Services and Market Opportunities[5].

The design of such budget programs benefited from methodology development that had been achieved in the health sector and, at the same time, the adoption of an approach of independent evaluations implemented in Chile was decided, designing the methodology of the Design Assessment and Budget Execution (EDEP).

Although such efforts have led to important achievements in the introduction of results-based budgeting approach, in order to move forward with this process, it is necessary to overcome some weaknesses, such as those listed below:

a) Coexistence of several budget programming approaches (Strategic Budget Programs - PPE, Institutional Programs - PIT, Activities, Public Investment Programs and Projects), and the absence of a standard and stable methodology.

b) Low coverage of results-based budgeting approach, limited only to 15 budget programs representing 13% of 2010 non financial or provisional budget, less than half of which have actually been implemented in the relevant entities.

c) Low level of ownership and commitment of the entities involved in strategic budget programs. This is due, among other reasons, to their weak participation in budgetary program design, as well as in the each year budget process.

d) Lack of accountability due to the lack of responsibility openness in the results both in the level of entities and related officers within the execution of strategic programs.

e) Although the final results strategic programs require long terms and continuity in their actions, such programs are being operated with a short-term view depending on the annual budget. It is necessary to give a multi-annual orientation to result-based programming and budget.

f) Partial recording with the SIAF of the elements that make up the strategic budget programs. Only products are registered but neither the results nor the product or intermediate and final results indicators are not recorded; therefore there are serious limitations on access to information for monitoring, assessment, and decision making.

g) Inconsistency between the rationality of the budget programmatic structure with the causal logic of strategic budget programs. However, the PPE are supported by the SIGA-PpR, the products of these programs are recorded using the functional structure of conventional budget, which limits their full implementation as a new logic of public budget management.

While it is true that the results-based budget approach implies, from the point of view of resource allocator (MEF), focusing on results and products rather than on consumables,

[5] According to the argument explanation in 2008 budget, "The formalization of these PE in 2008 budget process occurred on July 4 with the publication of Directive No. 010-2007-EF/76.01, which was complementary to the Directive No. 006-2007-EF/76.01 for Public Budget Programming and Formulation for the public sector. This directive established the rules for programming and formulation of pilot results-based budget programs, indicating the logical frameworks, the indicator matrix and the chains created in the Programmatic Functional Structure for these 5 strategic programs".

this does not mean that the activities required to generate such products must be ignored; on the contrary, the entities running the programs need to be clear on the activities to be undertaken and the costs thereof. What need to be clearly determined is the roles played by allocating body and receiving body; the role of production; and the causal chain Activity-Product-Result. There are serious limitations for the management of a program when there is no knowledge of the activities to be performed, the heads of such activities, the terms, and the resources required.

2.3 Guidelines to move forward on the reform

Guidelines currently in effect, seek to overcome the weaknesses of the process followed so far, therefore such guidelines establishes that reform seeks the following: i) to strengthen the strategic perspective of the budget and its relationship with national, sectoral, and territorial policies; ii) to promote the design of result-oriented and evidence-based public interventions; iii) to generate performance information for a more efficient and effective allocation of the budget; iv) to introduce a multi-year programming of expenditure under the Multi-year Macroeconomic Framework.

For this reason, a progressive process has been determined to identify, design and register result-based budget programs, with the direct participation of the entities that determine public policies in the budget program design, in order to achieve greater ownership and commitment during the execution.

It aims to improve accountability, since the new programmatic functional budget structure clearly lists the goods and services to be delivered and their logical connection with expected results. It also establishes identifying an individual to be directly responsible and accountable for the performance of a particular program.

Three categories for budget programming can be distinguished. In this way a number of costs which are cross-cutting, or are used to finance support functions or others that have no relation to the productive generation process of the entity and which cannot be considered budget programs can now be recorded.

Multi-year expenditure program is introduced through multi-year programming of products, which is carried out at the time of designing the budget program. Thus the widespread concept of multi-year expenditure programming would be fulfilled, but it also implies that allocation of resources for funding in subsequent years these products are actually pre-allocated based on multi-year macroeconomics.

The systemic reform started is based on the design and implementation of the new Integrated System of Financial Administration, called SIAF II, which among other things means changing the client-server technology platform to a web-based system, completing implementation of the Unique Account of the Treasury (CUT), expanding its coverage to operating units, integration with other management systems such as interphases with SIGA, Human Resources, Public Investment, Contracting, among others.

3. Conceptual framework of budget system reform

3.1 History of budget systems

Throughout the history of public administration there have been several methods for public budget processing. For example, the so-called traditional budget that consisted of allocating the budget to administrative units without prior definition of objectives and goals, financed activities were not known, the items of current expenditure and capital expenditure were not distinguished, and there were no classifiers for treasury and accounting.

Instead, the so-called zero-based budget required a detailed justification of all budget items in terms of goals; this implied identifying and organizing all of the activities by decision groups to be assessed and ordered by priority. This method has the advantage of analyzing all expenses, including the existing ones, and increase is not negotiated on the basis of the previous year's budget. Its strict and unplanned application takes too much time and creates a risk of duplicity of efforts at several levels of the process.

Furthermore, the program-based budget method consists of a set of techniques and procedures which, systematically arranged into programs and projects, lists the tasks to be performed, specific objectives, and implementation costs. This involves designing a program for each function of the State, determining financial resources for each program, and establishing measurement units to assess performance. The disadvantage of this method is that it copies the organization pattern of the State functions to the detriment of the results expected by citizens and the products needed to achieve these results.

3.2 Result-based budget Approach

According to international literature, there are a number of models for results-based budget (PpR) that use different mechanisms to link fundings to results. Some have very sophisticated features and require the support of complex systems of public management, while others focus more on fundamentals.

Likewise, several authors and international organizations like the IADB, IMF, OECD, World Bank, have concluded that results-based budget should not be seen as an isolated initiative, but as a part of a broader reform package, which involves thinking of Results-based Management where PpR is a major component.

According to the IMF (Robinson 2009)[6] Results-based budget aims to improve the efficiency and effectiveness of public expenditure by linking the funding of public sector entities to the results obtained with the systematic use of performance information.

The most basic model of results-based budget is the one that aims to ensure that, when formulating government budget, the key decision makers systematically take into account the results to be achieved through expenditure. This is what is sometimes referred to as "budget performance information".

[6] Marc Robinson and Duncan Last, "A Basic Model of Performance-Based Budgeting", Fiscal Affairs Department of International Monetary Fund. September, 2009.

The essential requirements of this basic model of results-based budget are: a) information on the objectives and results of public expenditure in the form of key performance indicators and a method of program assessment, b) a process of budget elaboration that facilitates the use of such information in the budget funding decisions.

Scott (2008) indicates that the results-based budget is the relationship between the allocation of funds with measurable results; it is the planning of public expenditure in terms of explicit results to be achieved, where the results are very closely related to prioritized policies (Robert, 2003). For this reason, it is mentioned that results-based budget is an instrument to establish and manage high strategic government priorities and transform them into strategic products that have an impact on organizations and individuals themselve (Pollitt, 1999).

A more restricted concept indicates that results-based budget allows to assign more resources based on the results achieved or to be achieved (Schick 2008). On the other hand, broader approaches such as Pretorius and Pretorius (2008) prefer to speak more about Result Management as the opportunity to understand the rules governing budget formulation and execution and how the institutions influence decisions and choices according to the objectives of the government. This approach aims to emphasize the need to focus on changes required in the institutions, identifying the roles of those who spend and those who control, as well as the rules their claims are based upon and resources are used, and information made available.

3.3 The Principal theory[7]

The principal - agent theory also brings important elements to understand the State reform regarding result-based management, especially the way to know how public institutions and actors or stakeholders are organized and relate to each other. This theory identifies three types of actors within public institutions: politicians, bureaucrats/administrators and voters/citizens. Each of these actors has different interests and agendas, as well as specific powers: politicians have the decision-making power and in many cases the power to retain or remove a public officer from the job; officers or bureaucrats have the power of information management and the daily knowledge of the processes with which politicians makes decisions, and citizens have the power to vote and the possibility of reelecting or not the ruler, and are dependent on the decisions taken by politicians and the quality of the services provided by officers. In this sense, the principal-agent theory helps us understand these relationships and gives us clues of how each one can internalize and feel the benefits of working for collective institutional goals, i.e., to find out how each actor can cooperate to move forward in the same direction.

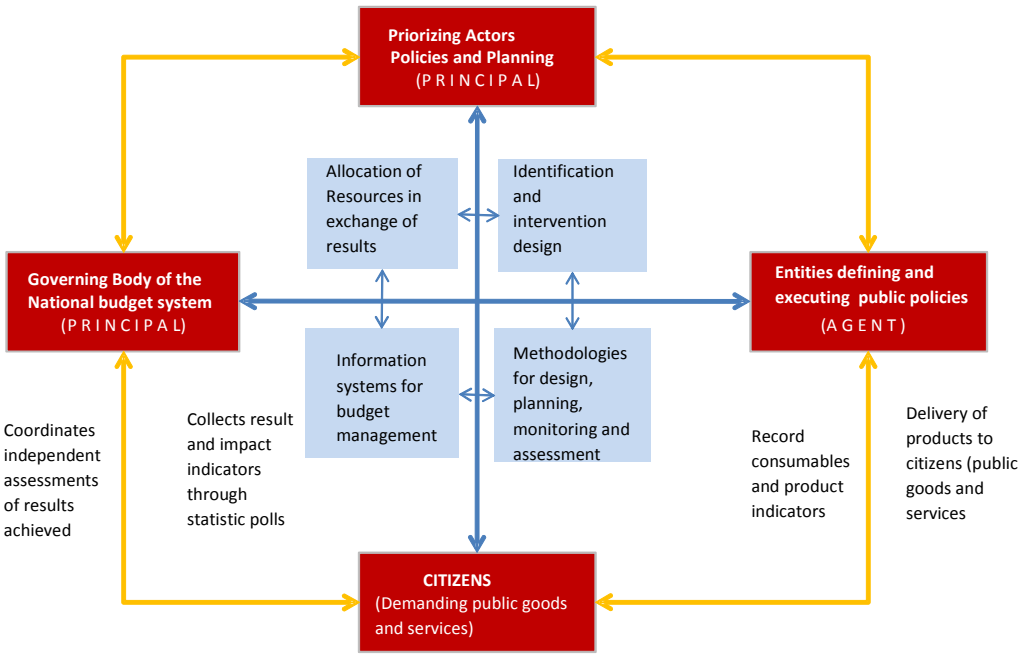
The theory suggests that system of incentives and penalties should be used as a key instrument to achieve this alignment of interests. A system of incentives should consider issues outside work, such as wages, stable contracts, performance bond agreements, promotions, monitoring mechanisms, prestige and, on the other hand, internal aspects such as possibilities to task completion, opportunities for professional achievement,

[7] Working document "From the Institutions to the Citizen: The Reform of Results-based Budget in Peru", submitted in the regional meeting of CEPAL, March 2011, Santiago de Chile; Ministry of Economy and Finance.

autonomy and personal growth, among others. That is to say, to structure a system of incentives and penalties that strengthens the motivation and interest of officers and politicians to make their greatest efforts and develop the required skills to meet the targets (Alvarado and Moron, 2008a; Rodriguez and Repetto, 2000).

This is the idea behind the budget proposal or result-based management. To implement PpR it is necessary to develop a system of incentives integrated into a broader view of management where, on the one hand, the objectives are defined for concrete action so that management can be aimed to the results sought and, on the other hand, there is a State structure that provides greater autonomy, flexibility and discretion to line officers to decide and to operate more easily and quickly towards these results. However, without this clarity of objectives, no clear incentives, and no flexibility in operations, it will be very difficult for officers and politicians to be evaluated in a clear way and for them to be able to assume responsibility for their decisions. In addition, to prevent abuse of these actors, effective and stronger accounting is required, internal and external financial audits, as well as managers with management skills in business management, including communication skills, ability to analyze information and performance assessments (Roberts, 2003).

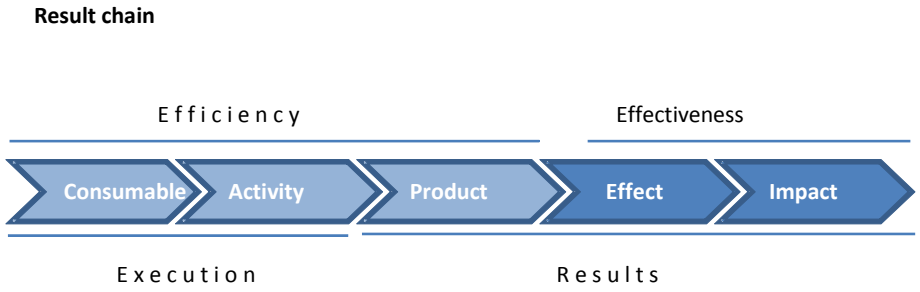
Graph 1
Circular flux of the process of results-based budget



3.4 Result-based management

According to IADB, results-based management focuses on a clear notion of causality. The theory is that different consumables and activities logically lead to higher orders of results (products, results and impact). These changes are usually displayed in a "result chain" which clearly illustrates the cause-effect relationship. Development results are

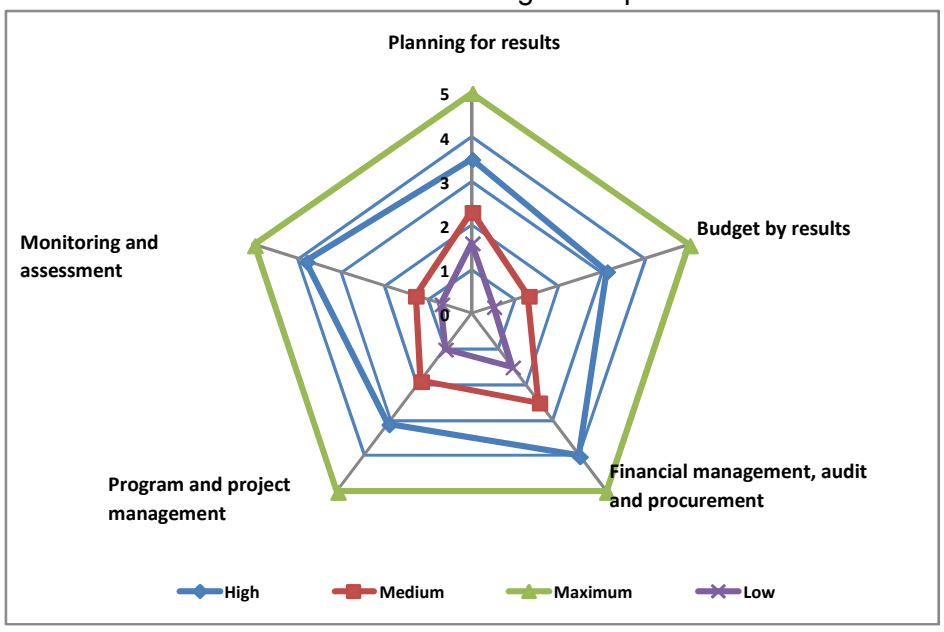
generally understood as sequential and constrained by time, and changes are linked to a number of management steps within the programming cycle of any development initiative (project or program). Result-based management demands that managers regularly analyze how reasonably likely it is that their implementation activities and result will achieve the desired results, as well as to make continuous adjustments when necessary to ensure achievement of results[8].



Source: World Bank and OCDE (2005)

The components of the public management cycle necessary to achieve results are grouped into five pillars: i) planning for results, ii) budget by results and financing, iii) financial management, procurement, and audit, iv) designing and managing programs and projects, v) monitoring and assessment

Graph 2
Result-based Management pillars



Source: IADB, Result-based Management in development.

[8] IADB, Result-based Management in development: Progress and challenges in Latin America and the Caribbean. Roberto García and Mauricio García, year 2010.

The graph shows the index created by IADB to measure the degree of implementation of the Result-based Management approach in Latin America and the Caribbean[9].

As shown, Result-based Management demands the implementation of this approach in all administrative systems involved in public expenditure cycle. However, in Peru, the LOPE provides that administrative systems aim to regulate the use of resources in public administration bodies, promoting the efficiency and effectiveness in its use; in practice, operations are disjointed, without taking into account that within the Management Units expenditure follows a sequence of steps crossing administrative systems as a single continuous process[10].

This approach helps to allocate resources efficiently versus the deliverables that implementing agencies are committed to achieve. It also helps to improve allocation for those programs related to citizens' needs. Further, it gives managers more freedom, since they should focus more on results than on consumables. It allows a more objective and less adversarial assessment, since it forces the use of key indicators.

However, this approach requires a high methodological discipline and demands change in mentality to stop thinking about allocating resources to institutions but to the results and products; it poses a challenge for the accounting and control systems of public expenditure. Since results are designed having in mind the needs of the citizens, result-based programs may cross institutional competencies and government levels, which poses a challenge for achievement coordination and monitoring.

[9] IADB, Result-based Management in development: Progress and challenges in Latin America and the Caribbean. Roberto García and Mauricio García, year 2010.

[10] LOPE indicates that the Governing Bodies of Administrative Systems have the following functions:

a. To program, direct, coordinate, monitor and assess the process management;
b. To issue regulations that rule the System;
c. To keep updated and systematized the System's regulations;
d. To issue binding opinion on the subject of the System;
e. To train and spread the Public Administration System regulations;
f. To keep records and produce relevant information updated and timely;
g. To supervise and monitor the implementation of the Systems' technical processes regulations;
h. To promote continuous improvement and simplification of the Administrative System technical processes.

4. Vision and gradual progress in the application of the reform

4.1 Comprehensive and systemic reform of public budget

The reform undertaken is a systemic reform based on the concepts and principles of the result-based budget approach. It is a comprehensive reform whose main objective is to sustainably increase efficiency and effectiveness of the State regarding provision of benefits to society as a result of the use of public resources.

It is a comprehensive reform because, at the end of its implementation process, the budget system must fulfill its three key functions: 1) budget allocation with strategic perspective, multi-year and equity in line with the multi-year macroeconomic framework, 2) ensure that the use of public resources leads to the achievement of the results expected by the citizens, actively using performance information to measure the operational efficiency and to provide feedback on the allocation function, and 3) contribute, in the most effective way, to the fiscal balance and sustainability through an intelligent control mechanism of incomes and expenses.

It is a systemic reform because it considers substantial changes in all components and tools of the budget system, such as: a) the creation of three categories of budget programming (i) "core actions", (ii) "result-based budget program," and (iii) "actions not resulting in products", b) budget program universalization as the basic unit for resource allocation, management, monitoring, and control of results for all State actions within the second category, c) budget program identification and design based on an result expected by the citizens and not from the view of what the institutions believe they should do, d) changes in functional-programmatic structure to reflect the causal logic of programs, e) joining budget and planning through the causal chain consumable-product-result-strategic objective, f) the subordination of public investment projects to the causal logic of budgetary programs[11] to reverse the systematic divorce between current expenditure and capital expenditure, and to improve investments sustainability, g) the multi-year programming of public expenditure from the prioritization and multi-year programming of products and results, h) the mainstreaming of budget programs to institutions, sectors and levels of government due to their design following a causal logic to achieve results, i) determining the budget of each program from the goals of products, results and the use unit costs supported by goods and services catalogues to perform the activities necessary to generate the expected products.

It is also a systemic reform, because it needs and promotes the integration of administrative systems for planning, budgeting, accounting, treasury, debt, investment, human resources and procurement through the chain consumable-product-result-strategic objective of use of classifiers, tables, and common codes or equivalent via the new SIAF and/or via interfaces between the respective systems.

Certainly, being posed this way, the reform has to be gradual so as not to sacrifice the quality of the expected results, but it should be a permanent and continuous process,

[11] By definition, Budget by results Programs, besides being identified and designed to achieve the results expected by the citizens, have a long-term programmatic logic.

supported by the new Integrated System of Financial Administration designed according to this new logic.

In the following points some elements of the reform are developed, and referred to above:

Strategic perspective of the budget. The budget process using tools such as the Result-based Budget Program must collect the country's priorities, defined in political and strategic levels. Public policies established and promoted by successive governments fail to be introduced or are partially and inefficiently introduced because of two main reasons: i) such policies are not designed based on its expected result and their production function is not clearly defined following a causal logic, ii) resistance to change by culture, inertia and conventional public expenditure architecture. The reform seeks to establish the budget program for results as the category that enables introducing public policies in an efficient and sustainable way.

Result-based Budget programs. The budget program is summarized in the "final result – specific result – product - consumable" causal chain based on evidence. This is a category with a great potential to provide public budget with a real strategic and practical perspective, and is a very useful tool to achieve effective joint between budget and public policies and national priorities. Also, this budget programming category helps the thematic and territorial joint, to the extent that the three levels of national, regional and local government, in the margins of their powers execute resources to provide the same target population with goods and services, which are part of the "final result - specific result – product - consumable" chain.

A methodological element of great value in the design of budget by results programs, used since the beginning of the reform in the so-called Strategic Budgetary PPE Programs, is the search for scientific evidence to show that interventions and financed products will achieve the expected results in the population.

Performance information for budget management. Budget management includes budget allocation, implementation, and assessment monitoring, and accountability. In the logic of the annual budget where programming begins in the second quarter of period t, budget by results has an important dilemma: Either to allocate resources according to the results achieved in period t-1 or according to the results that must be achieved in period t +1, since at the time the implementation of period t in programming is in process.

Regarding the use of the period t-1 results as a criterion for budget allocation in period t +1, it is unlikely that most budget programs related to health, education, public safety, water and sanitation, among others, are not allocated with resources if the results of period t-1 were not achieved, i.e., to punish the bad implementers with fewer resources.

It is therefore necessary to conceive budget by results as a comprehensive process that includes at least: a) proper identification of the results expected by society, b) design technically supported by evidence, with appropriate indicators for each level of the causal chain, c) calculation of budget based on unit costs and performance ratios of the resources required to achieve certain goals, d) identification of those responsible for each level of the causal chain of the program designed, e) the active use of performance information in period t-1 based, on the one hand, on efficient indicators to make adjustments in design, goals and unit costs for period t +1, as well as to generate

positive and negative incentives in implementers committed in budget by results programs for periods t and t +1.

In that sense, and given the complex regulations and political culture associated with public expenditure, it is a fundamental condition to implement budget by results, besides accountability for results funded, to have certainty of the budget program design quality and the cost and budget calculation quality.

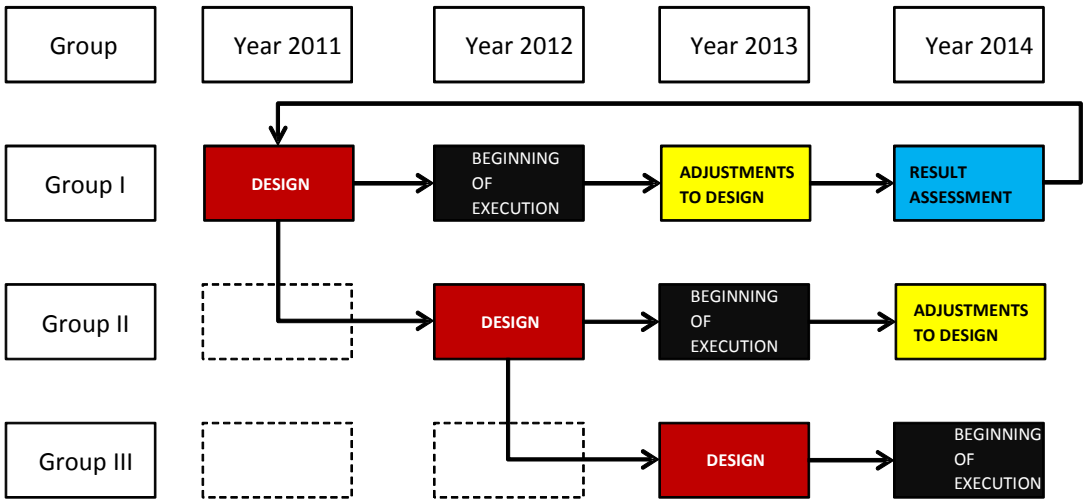
Public expenditure multi-year programming. The short-term vision is a serious limitation to implement a real budget by results, because sustainable results achievement over time requires in most cases periods longer than the fiscal year and certainty about the availability of resources in order to implement programming of the current year and subsequent years without interruptions that reduce efficiency and effectiveness in the implementation of activities and in the achievement of results by public entities. Results cannot be achieved if every year programming is changed with budget cuts or reallocations disregarding the program design or if there is uncertainty about the resources available for subsequent years.

In that sense, the reform sets out to carry out programming by using the new SIAF for the achievement of medium-term results and make financial provisions to make them possible. Also, to have a better estimate of the public decisions fiscal impact for generating higher budget predictability in entities. For this, it is necessary for institutions to establish multi-year performance goals and to take into consideration the resources needed to keep and operate public utilities. Multi-year programming of the products and their costs will also bring valuable information to an increasingly intelligent allocation of public resources.

Regarding progressiveness, the goal is that by 2014 the entire national budget is formulated under the logic of budget by results programs. Adjustments would be made each year on the implementation process based on lessons learned, especially regarding the identification of budget programs, in organization mechanisms of multidisciplinary teams for their design, and training of specialists and officers of the entities involved in the programs.

In that sense, the process undertaken constitutes a systemic reform of public budget, as it not only refers to a set of programs, but it seeks to promote in Peru a culture of performance management across the State apparatus and in the three levels of government.

Graph 3
Diagram of progressiveness and perfection of the introducing process

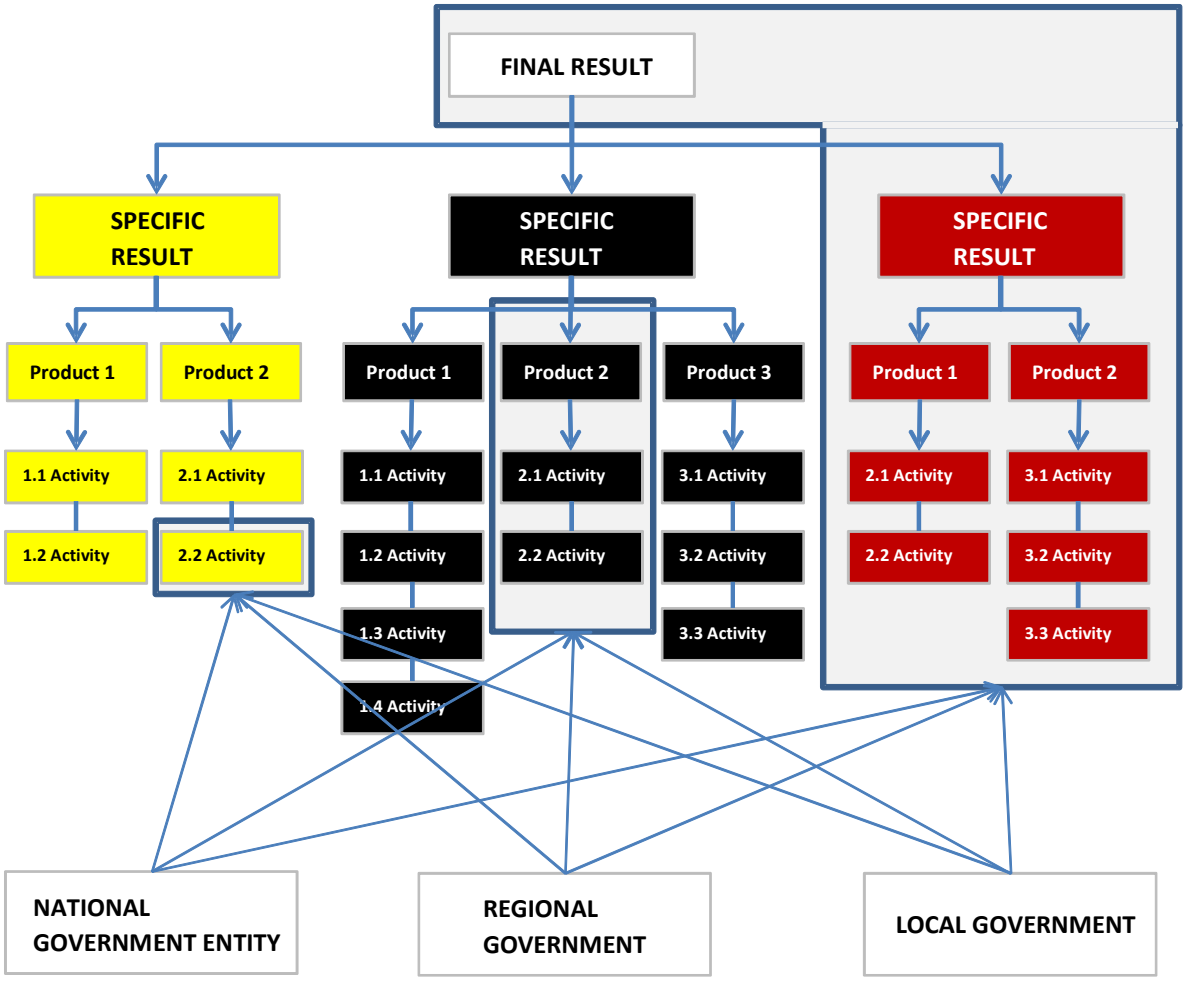


4.2 The vision of the reform and the articulation of the three levels of government in the territory

Whenever results are designed around the needs of citizens, result-based programs can cross institutional competencies and levels of government, which poses a challenge to achieve coordination and monitoring. So far, articulation of the State's actions in the territory are good aspirations, but there is no practical mechanism that naturally (actions linked by cause-effect relationships) and daily turns resource performance and usage of the various public institutions into results, as a consequence of the synergy of their efforts.

Budget programs properly designed and registered in the SIAF with appropriate access or permits, will allow the agencies to plan, implement, and monitor their contribution in results achievement for their corresponding target populations. As it will be discussed in the section on methodology, the use of the logical framework approach in budget program design and the SIAF tool support will effectively help in the achievement of the coordination of efforts purpose aligned by cause-effect relationships towards results wanted.

Graph 4
Diagram of participation and articulation within the three levels of government



Source: In-house

5. Methodology and key procedures in the reform

5.1 The division of the State's actions in new budget items

The reform begins by establishing new programming categories for the whole of the resources included in the Public Budget, which is explained below.

Result-based Budget Program. It is the basic programming unit of the State in carrying out its functions for society. It belongs to interventions providing a set of products (public goods and services) by developing comprehensive and articulation, which tackles the main causes of a specific problem or an unmet need that affects a target population and that in turn, contributes in the achievement of an ultimate goal of public policy. It has the following features:

- Its existence is supported by the need to achieve a specific result, which is the change that is trying to be reached in the target population in order to help achieve a final result, associated with a public policy objective.
- In order to achieve such specific result, previous generation of products is required. Such products represent the goods and services the program delivers to achieve the specific result.
- Products can be achieved or generated through the implementation of a coordinated set of activities.
- Designing a Program Budget includes the tasks of analysis and decision-making organized in two phases: (i) diagnosis (problem and causes), and (ii) the logical framework (identification of results and related products). The logical matrix describes the relationship between products and results, relating indicators and magnitudes to identified results and products.
- It may have one or more public investment projects, according to the causal relationship between the objective of the project and the specific result of the program.

Central actions. It consists of the activities aimed to human, material and financial resource management of an institution that contribute to the achievement of the results of all its budgetary programs. For example, it includes, among others: (i) Superior guidance and orientation, (ii) Administrative management, (iii) Human resource management, (iii) Technical and legal consultancy, (iv) planning and budgeting, (v) Judicial Defense of the State, (vi) Control and audit actions, among others.

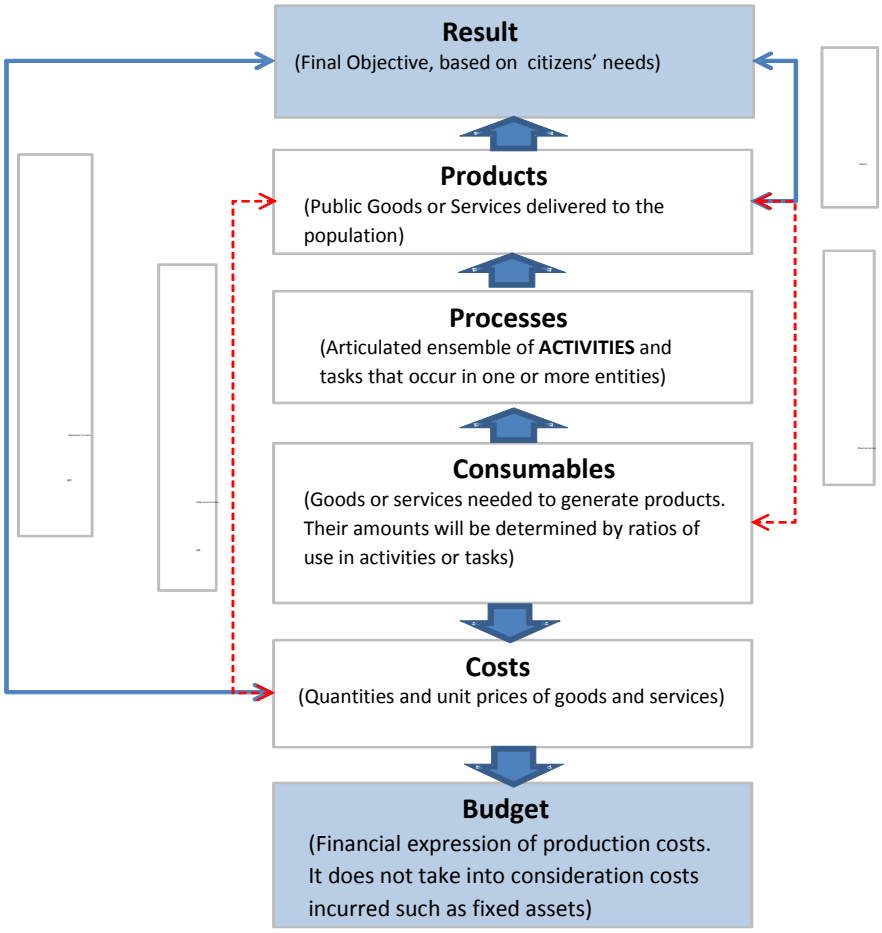
Budget allocation not resulting in products. It consists of the allocations approved in the budget for the attention of a specific purpose of the institution. These allocations are not related to the productive generating process of the institution. It includes assignments such as: (i) contingency reserve, (ii) domestic debt management, (iii) external debt management, (iv) subscription of shares and contributions, (v) provisional obligations, (vi) bond recognition management, (vii) subsidies for natural persons, (viii) subsidies for legal entities, (ix) financial transfers.

5.2 Methods for the design of budget programs

To implement the result-based budgeting approach using the budget program as a basic category for resource allocation, management and accountability, a simple but solid theoretical and practical method is required, so that all the actors involved understand and participate actively and efficiently of it.

Result budgeting involves causal relationships, where a number of consumables and activities logically lead to higher orders of results (products, results, and impact). These changes are usually displayed in a "results chain" which clearly illustrates the cause-effect relationships, as shown in the Graph below.

Graph 5
Model of result generation



Source: in house.

Under this concept, it is clear that to implement a results-based budget it is essential to use methods allowing clarity in the consumables-product relationships and, since then, consequently costs and budget calculations.

5.3 Methods for budget programs design

5.3.1 The logical model for the design of Strategic Budgetary Programs

In 2008, the National Directorate for the Public Budget prepared the "Methodological Guide for Strategic Budget Programming", consisting of an important contribution to

progress in the implementation of result-based budgeting approach. This methodology, which is described below, allows focusing the analysis and design on what is sought to achieve for the citizen, and what should be done for this. PPE consists of performing analysis tasks and decision-making organized into two phases:

Phase 1. Diagnosis. It consists of the analysis of a condition of interest (or identified problem) on which one wants to influence, as well as its direct and indirect causes. The tools for making the diagnosis are the following:

Conceptual Model. It is a structured diagram that represents a set of relationships between concepts, which in turn respond to one or more of the following properties: (i) they must be associated with a feature that allows their identification towards other concepts or variables, (ii) they must submit regular basis, i.e., they must be associated with a temporary occurrence, and (iii) they should refer to a fact or event of reality.

Explanatory Model. The characterization of a specific conceptual model of the country/region is called explanatory model. It involves performing the following tasks: (i) to determine the extent of the condition of interest, (ii) to identify the direct causal factors, (iii) to identify indirect causal factors, and finally, (iv) to identify the critical causal pathways. The explanatory model is derived from the adapting process of the conceptual model.

Prescriptive model. It involves the identification of those causal factors that can be seized or affected (causative vulnerable) by applying interventions to achieve program objectives. Identify the factors derived from the critical causal pathways developed in the explanatory model. The general steps for its construction are the following: (i) identification of vulnerabilities in the explanatory model, (ii) identification of interventions on the basis of efficiency and effectiveness criteria, (iii) identification of current interventions and (iv) prioritization of interventions to be performed.

Phase 2. Design of the intervention. It consists in the construction of a logical model that systematically presents the relationship between products and results (related with the problem analyzed in the diagnosis phase), as well as determining the values and magnitudes of the identified results and products. This instrument is a tool for planning, implementation and assessment of interventions on a particular condition of interest. The Logical model is derived from the explanatory model and the prescriptive model, which in turn respond to the diagnosis made.

Thus, this methodology captures at least two key features of the Peruvian PpR mentioned above. On the one hand, this approach does not take into account directly any State institution, level of government or entity. It is clear that products must be provided by one or more public entities, but the logic of the approach does not predetermine it.

From the point of view of a budget system as part of an Integrated System of Financial Administration in the public sector, the main limitation of the logical model is that it does not show the indicators for each level, the means of verification and external factors that could affect the causal relationships in the consumable-product-result logical chain.

Another major difficulty of the PPE method is its relationship to the programmatic functional structure that is a universally used tool for budget organization and management. Therefore, to strengthen the budget system reform the decision was made to modify the classifier in the programmatic part to properly reflect the consumable-product-result budgeting programs causal chain.

To consolidate the budget by results, the decision was made to use the logical framework method as a tool for designing and recording budget by results programs, given their strengths explained below.

5.3.2 The logframe matrix for design, management, and assessment of result-based budget programs[12]

It is a planning method expressed as a matrix of four columns and four rows (4x4). By definition it allows to see the whole program and verify its logical consistency. It is a design method that allows to organize the information, resources and activities so that different points of view can be collected simultaneously in a synergistic manner.

The key concepts of the logical framework are i) objectives hierarchy, ii) cause-effect relationships, and iii) related hypothesis. The activities or consumables allow the completion of products, the products (goods or services delivered to the target groups) allow to achieve a specific result and this allows to contribute to a final result or purpose, provided that certain external factors called important assumptions are met for each level.

Logical framework approaches. It is an approach that integrates three approaches: i) managerial, ii) scientific, and iii) systems. Therefore, it is not simply a form that must be filled, but a vertical logic (end, purpose, products and activities[13]) and horizontal logic matrix that allows an objective verification of each level of objectives (indicators, means of verification and important assumptions).

a) ***Managerial approach.*** Management is to achieve results and managers are responsible for this. This approach considers the hierarchy of objectives, and management and accountability levels. The basic hierarchy is given by: Consumables: these are resources consumed and activities that are carried out. Products: these are the results that the manager is committed to create or produce; if there is a failure to deliver the products in quantity, quality, time and place agreed, then the manager is responsibility to show the reason why it has failed. Specific result is the reason why something is produced, it is the highest level goal that makes possible the allocation of resources to produce results.

b) ***Scientific approach.*** Human actions are uncertain, therefore nothing is absolutely certain, everything is relative, i.e. all human activity can be considered as hypothesis testing. Therefore, each budget program can be considered as a

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[12] The main authors of the logical framework are León J. Rosemberg and Lawrence D. Posner from Practical Concept Incorporated-PCI upon request of the United States Agency for International Development USAID in the year 1969. Currently, there is abundant reference material on the logical framework that confirms solidness of this method for planning in different sectors and types of public programs and projects.

[13] In the methodology for result-based budget programs, the following terminology has been adopted: End=Final result; Purpose=Specific result; Products=Products; Activities=Activities.

set of hypotheses linked in a chain. If consumables are used (activities) then we get products, and then if products are obtained we achieve the desired result.

What changes between each level is the probability of success. It is part of the ability of a program manager to make sure that consumables result in products.

c) ***Systems' approach.*** No system is defined until the larger system of which it makes part is defined. It is added to the three levels of management hierarchy objectives a fourth level called "Final result", defined as the highest goal immediately above the purpose or specific result of a budget program. It is the phrase "then" for which the specific result plus the important assumptions must provide a feasible "if" at that level.

The logic of the method. The logical framework is characterized by a vertical logic and a horizontal logic. The Final result, the Specific result, Products and Activities (Consumables) are the characteristic of a budget program and are linked by a set of hypotheses. A good design requires that, at every level in the vertical logic, the stipulated conditions be those necessary and sufficient to achieve the purpose or purposes of the next higher level.

After clarifying the basic design of a program in terms of consumables, products, Specific result and Final result (because it carries out an intervention or provides a service), the logical framework requires that the design team identify the evidence required to demonstrate the achievement of each goal. Then, the horizontal logic implies that, at each target level, the design team must make explicit: i) objectively verifiable indicators that will demonstrate the achievement of the desired result, ii) means of verification of such results.

The two-step explanation of the evidence – first, identification of the indicator, and then the means of verification - was specially introduced to help design teams to measure what is important rather than measuring what is easy to measure. The logical framework promotes the use of multiple indicators to measure success at the level of the Specific result by recognizing the limitations of individual indicators to measure complex changes. The use of the method of seeking evidence about the certainty of the causal relationships in the consumable-product-result chain is a crucial aspect in the implementation process of result-based budget approach.

The design of a logical framework of a program's logical framework begins in the systematic diagnosis of a certain situation that can be supported by network technique for problems and solutions, or of conceptual and explanatory models used in the logical model method.

Chain hypothesis. As indicated above, a good design requires that, at every vertical logic level, the stipulated conditions are those necessary and sufficient to achieve the objective or objectives of the next higher level. Also, recognizing that both the set of necessary and sufficient conditions must be indicated at each level and that many important factors for success may be beyond the control or influence of the management team, the logical framework requires identifying the key assumptions that must occur to propose the success of an intervention.

That is to say, factors that are beyond the control of the manager and affect success must be identified. Thus, for example "if consumables are used and activities are carried out, and also some external factors are met, then the products are completed."

The role of performance indicators. The formulation of performance indicators follows a sequence that includes planning activities and measuring magnitudes. In general, it begins with the identification of indicators according to related products and results. It also requires the establishment of performance standards, accountability establishment, reference values, calculation methods definition, sources, and mechanisms to gather information.

Indicators are defined on the basis of the products and results of different public interventions previously identified in the planning process and budget programming, or in the design process of new programs and projects, either on the basis of historical information, previous experiences and the result of empirical research in relation to the interventions developed by each institution in order to achieve its objectives.

The set of criteria mentioned above will help to define the indicator category, according to the classification of the field (consumables, product, result), as well as performance dimension (efficiency, effectiveness, economy or quality). To select an indicator the availability of information, its usefulness and priority for decision-making, and the cost of gathering data for measurement should be considered.

The ongoing reform process, provides for the gathering and processing of the value of the indicators will be in a differentiated way: for consumables and product indicators, gathering and registration in the SIAF will be provided by public entities involved in the implementation of Product activities of a particular program, in the case of specific performance indicators (effects) and final result indicators (impacts) it will be carried out on the bases of statistical sampling by the INEI or third parties on indicator tabs and conceptual definitions previously defined and agreed with the institutions having functional competence l dictating policies on the matter of the program.

5.3.3 The logical model vs. the logic matrix

As it has been noted, both the logical model and the logical framework are neither contradictory nor complementary. The logical model is a graphical representation of causal relationships and is very useful for teaching purposes, but the logical model as such is not a matrix that can be used in the SIAF. The logical framework is a full matrix that allows verification of the consistency between all the variables required to achieve and measure the achievement of concrete results, in addition to its usefulness for the computer record of budgetary programs in the FMIS as the basis for the whole expenditure cycle architecture (design, implementation, monitoring and assessment). Methodology developed in the diagnosis phase of PPE provides important elements such as evidence search for the logical framework design.

In both methods, there is a need for harmonization of cross-section approach inherent to the definition of a condition of interest, with the institutional or sectoral approach of entities when participating in program by results design, since there is a trend in some natural way in entities to try to justify everything they do, so they define their activities and products according to their regular duties and not necessarily based on the condition of interest. For this, coordination from the MEF is obviously important for the

formation of multidisciplinary teams, including the participation of external specialists to the participating entities.

It must also be recognized that the complete design of a budget program in either of the methods, demands a major effort the first time, but once the design has been validated and budgeting begins on that basis, in the following years design functions are reduced and replaced by assessment and improvement.

In either method, since in practice, a condition of interest, problem or need of the target population, involves activities and products of more than one entity or several levels of government, it is a challenge for the implementation of the PpR that demands an important coordination and training process in order to gradually internalize it in public entities.

Budget calculation. In the PPE method, budget for each product is defined through the so-called production functions using the catalog of goods and services, although it is not made explicit the activities or tasks that consume goods and services. In the logical framework method budget is calculated on the basis of the goods and services identification (existing in a catalog) required in executing the activities of each budget program products, because according to the theory of costs it is not possible to afford Products without defining the magnitude of the activities that consume such resources.

6. The Financial Administration Integrated System (SIAF)

6.1 Information systems

To effectively implement a results-based management, a systematic use of information to measure the relationship between the obtained and allocated results or the relationship between expected and to-be-allocated resources is needed. Performance information allows injecting technical criteria to the budget process and real incentives to improve efficiency in the resources use and the provision of public goods and services to citizens (Scott, 2008; Robinson, 2007).

However, generating reliable and useful information is not easy. It takes, on the one hand, an information system based on statistics which collects in a timely manner a credible set of indicators for assessing performance; and on the other hand a management system which in the entities' daily operations, generates information on the product indicators for performance evaluation confirms the results attribution found for products delivered to citizens and resources used. The latter is highly relevant, as there is a natural lag between the budget cycle, products generation and results.

The conceptual design and construction of the new SIAF with a results-based management approach is an opportunity to lay the foundations for an efficient implementation of this new approach in public expenditure management in Peru.

In this sense, the new SIAF as a daily operations management system on entities in the three levels of government in charge of the implementation of budget programming provides the mechanism to collect timely and standardized data and reduce effort and errors duplication in the processing of large amount of useful information for decision-making approach to budgeting[14].

According to Allen Schick (2008) there are four challenges present in managing information linked to the budget:

The cost of having reliable and timely information: A traditional budget is intended primarily for information of the consumables used and the organizational units in which it operates routinely, this type of information does not cost much to collect it for is readily available. In contrast, the performance information needs to be collected in a special way through the internal monitoring and evaluations.

Critical gaps in the use of information: This challenge is related to the weak capacity of public officers to obtain and analyze results, to relate to annual budget allocation, and to use it to provide the necessary support for improving programs and services.

Oversaturation of information: A lot of information that cannot be processed. Facing with this difficulty, one must differentiate between information that is relevant to have information that is important for an overall processes understanding.

The actual use of performance information for decision making: Those who produce the information are middle-ranking officers in the decision-makers change

[14] Given the importance of performance information in results-based management , it is recommended that if there is not a good information system to assess the institutions performance, one must be built before promoting the introduction of performance budgeting (Thorn, Holm-Nielsen, and Jeppesen, 2004).

budget allocation are frontline politicians. What happens in reality is that often the decision makers (politicians) do not take into account information provided by administrators because they rely on other decisions (interest, pressures, political favors, etc.).

The last point related to the actual use of information is one of the greatest weaknesses in results-based management, because although many countries have excellent information system development and evaluation of their programs, often this information does not determine the resources allocation within the State budget next year. For this reason, a legal and policy framework should be ensured to enable its use and influence. Therefore, this reform is not a purely technical issue, but requires a heavy dose of political involvement and leadership of key actors to be truly effective.

6.2 Role of the new SIAF

If the new SIAF is built taking into account that the basic unit of resource allocation, management and monitoring of results is the Results-Based Budget Program (in addition to Central Actions and Assignments that Do not result in Products) will play a vital role in consolidating the reform of budget system with a focus on results. Because besides being an important source of information, tools users modify their behavior in everyday business processes of the public expenditure key players.

Indeed, to make the public expenditure lead following the processes and activities of the public expenditure, both governing bodies of Budget, Accounting and Treasury and public entities using the SIAF main operational tool. In this regard, the current SIAF management has incorporated all the regular and specific resources of 148 bids and 2462 Implementation Units, which has helped fulfill one of three key functions every system budget, which is the control of public finances.

However, the SIAF fails to support any financial activity that may be fulfilled at the universe of public service delivery (health centers, police stations, schools, etc.), which is well known to local government level in highly decentralized and territorially and functionally as in the case of Health, Education, Interior. That is, the actual processes are met with a high burden of manual, paper-based documentary support (record) and multiple steps and transitions that make them inefficient.

Likewise, in the public expenditure implementation, Entities use various tools to SIAF, making a messy and inefficient execution process, which results in lack of results in terms of timeliness of public services and problems or deficiencies persistence in the population.

Nevertheless, the SIAF penetration degree in the public sector is strength to implement a much more efficient and faster approach to budgeting. Some of the features that SIAF shall meet are below:

a) ***Comprehensive registration of logical framework matrix.*** Registration of logical framework of result-based budget programs (and the information of Key Actions and Assignments that Do not result in Products), including a special treatment to the registration of the performance indicators of the consumables-product-result chain with an aim to ensure that the system has the necessary parameters for monitoring these indicators.

b) ***Definition of access.*** Registration of access to the consumables-product-result chain to the various implementing units in the three levels of government and technical actors of services providing previously identified in the budget program design, following the causal logic.
c) ***Budget framework.*** Budget ceilings allocation according to the Multi-year Macroeconomic Framework and different criteria either by programs, results and products, geographic areas, etc. as appropriate.
d) ***Multi-year programming.*** Results and products goals registration for several years, according to public policy priorities.
e) ***Physical Programming.*** Physical programming registration of the consumables-product-result chain indicators, as defined access during the design and budget programs.
f) ***Budget programming.*** Budgeting programs elaboration from unit costs definition or goods and services required identification for each Products Activity of the Budgetary Programs.
g) ***Financial execution***. Registration of various financial transactions in the consumables-product-result chain, during each program budget execution, according to the accesses indicated in paragraph b.
h) ***Physical execution.*** Value registration of the Activity (consumables) and Product indicators by implementing units according to protocols established in the budget program design.
i) ***Effect and impact indicators.*** Value registration of Specific Result and Final Result indicators obtained through INEI statistics or other independent, by the MEF or body designated for that purpose.

In that sense, for real reform to a results-based budget system it is necessary to ensure that the new SIAF seeks to incorporate the administrative processes that support the public management implementation and thus budgets, including those related to human resource management, acquisition and procurement of works, goods and services and inventory management, and real and personal property.

By integrating the processes of implementation and widespread use of a tool like SIAF to all units running public resources contributes to the transparency of management mechanisms and eliminating inefficient public expenditure. Such integration could be via interfaces between the computer systems involved in the expenditure execution, but the underlying problem is to find the logical articulation of the processes occurring in each administrative system and relating them to the programmatic chain and programs and projects structure previously designed according to the needs and problems to be addressed based on evidence analysis and other methods that provide certainty to the consumables-product-result.

7. Strategies to complete the reform

The consolidation of the result-based budgeting approach in Peru involves a substantial change in the role of people that are currently part of the system. Developing a result-based budget becomes a process of prioritizing and planning technique that requires more involvement of the different instances within public agencies with knowledge and skills according to the nature of the results to be achieved. Likewise, the persons responsible for the budget in each entity set aside their operational and repetitive tasks and go on to play a coordinating role in a highly participatory technical process, for such some practical steps to follow are set out below:

Administrative systems coordination and linking. It is necessary to establish a working agreement with the governing bodies of the public expenditure administrative systems, especially Planning (CEPLAN) Procurement (MEF/OSCE), Public Investment (DGPI), Human Resources (SERVIR), Accounting (DGCP) Treasury and Debt (DGETP), Control (CGR). The objective should be to achieve a methodological and operational consensus with all the other administrative systems on the approach to programming and implementation of result-based programs.

Official methodology. Approval and publication of the new general methodological guide result-based budget system. As mentioned before, one of the difficulties so far has been the coexistence of various programming categories that have generated some confusion on the actors of the budget process due to the absence of a general methodological guide that is simple and clear on the concepts, terminology and methods of budget program design.

Training. Key actors training in each entity according to approved guidelines. In addition to political support, in all countries where there is significant progress, to strengthening the capacities and motivations of people who have set in motion the reform has been fundamental. It shall be needed to train all officers involved in the budget cycle from the charge of programming to achievements evaluation clarifying the meaning of changes that are to be achieved and making flexible the processes in order to get the expected results.

Technical assistance in program designing. Establishment of multidisciplinary specialists teams to support the result-based budgeting design. While it is extremely important entities participation which dictate public policy, in the budget program design, reducing the risk of the institutional approach primacy to the detriment of focus on results through the organization and formalization of theme expert teams responsible for budget programs design, previously trained in the methodology would work under the coordination and monitoring of the Quality Management of Public Expenditure in the DGPP/MEF.

Strengthen the Quality Management role of Public Expenditure in the DGPP. This management was created to strengthen the national public budget system reform and lead a continuous improvement process in budget instruments to ensure public expenditure quality.

For such the following key functions, among others, were assigned: a) perform public expenditure prospective studies and their relationship with the country's political objectives and their associated national and local plans, b) smooth budget

methodologies and tools to improve public expenditure quality throughout the budget cycle and coordinate their implementation; c) design criteria and parameters of public budget allocation under the principles of efficiency, equity and sustainability; d) conduct monitoring and evaluation of public expenditure performance according to thematic areas, programs, sectors and institutions at all three levels of government and coordinate with other relevant State administrative systems; e) plan and manage technical assistance regarding bids budget at the three levels of government.

Coordination with sub-national governments. Establishment of a standing committee with National Assembly of Regional Governments and AMPE representatives. As mentioned before, the budget process is a technical and political action at a time, through which it develops, approves, implements and evaluates public production for a given period and assigns the real and financial resources that production demands. But in reality, this process begins with the budget programs designing, so given the role of sub-national governments now play in the public expenditure, it is necessary to engage effectively in the new public budget management focus.

8. Needs for technical assistance and cooperation

A real national public budget system reform is a complex and it has multiple implications. It is a process that requires clarity of objectives, methodology and operational tools, skills and commitment of different or heterogeneous actors. In this regard, specialized technical assistance is needed from both the MEF and the international cooperation, either in the overall or specific health, education, security, etc. programs.

The following is a brief account of the areas or subjects in which cooperation and technical assistance can be inserted:

a) ***On the general process of reform implementation.*** DGPP needs support and assistance on its effort to implement performance results-based budgeting, in several fields such as in coordination mechanisms with other administrative systems, in developing training programs and materials, in monitoring, assessment and adjustments of program designing, in the implementation of the new SIAF as it belongs to the programming and budget execution module, in its relationship with the budget committee and general account of the Congress, among others.

b) ***On the capacity development at the political level.*** Given the change of government and political actors; executive, congress and sub-national governments, it is required to continue the dissemination and awareness process of the need and the benefits of the public system budget's reform process.

c) ***In the development of capabilities on the technical-operative level.*** Given the reform magnitude and depth, it requires continuing the outreach program and professional teams training in the concepts, methods and tools to actively participate in the design and implementation of results-based budget programs.

d) ***Identification and design of specific programs.*** In the public expenditure implementation, reality imposes daily where short-term agenda is more urgent than thinking about budget program designing with medium and long term vision. In that sense, it requires a very large external support on identification tasks, diagnose, search for evidence, cost studies, designing, evaluation and approval of new budget programs focused on results.

e) ***Assistance in the implementation of cross-functional programs crossing three government levels.*** Complex programs related to topics such as public safety, regular basic education, malnutrition reduction, environmental improvement, among many others crossing sectoral, institutional or government level boundaries require intense training, motivation, monitoring and support for their full understanding and implementation.

f) ***Capacity development on the monitoring and independent evaluation framework.*** Given the existence of various results-based budget programs, evaluation of causal logic compliance, weaknesses in the design or identification of strengths, requires the specialized multidisciplinary teams participation, which are scarce in the private consulting markets.

g) ***Support on the practical implementation of performance incentives.*** It includes mechanisms establishment for identifying and assigning goals to

management groups, evaluation criteria and incentives application, impact assessing of incentives in results achieving, and so on.

9. Conclusions and recommendations

In Peru, repeated efforts to improve the quality of public expenditure have been made, but the results have been limited mainly due to partial, isolated, and discontinuous approaches. Sometimes the emphasis was on assignment, on plans and programs design, on incentives or monitoring and evaluation, but never promoting a comprehensive and systemic reform.

The reform started in 2007 has received political support from the highest level, expressed even in an act of the Congress. It has seriously attempted to incorporate improvements such as a) need to have a good result-based budget program design based on evidence, b) approach to full costing of products needed to achieve results, c) gathering of effect and impact indicators of budget programs via INEI statistics surveys, d) Administrative Integrated Management System SIGA as a tool to support management in implementing units.

However, it is still necessary to verify if the theoretical foundations, design and cost are issues that actually work and are clear to operate by public budget users. To move forward it is necessary to recognize that less than half of the programs designed with the PPE methodology have been effectively implemented, that independent evaluations are not fulfilling their role of improving programs designing and provide feedback to the process of budget allocation, entities that dictate the policies and implement budget programs have not actively participate in the program designing and its commitment during the implementation is limited, and coexisting different approaches and methods of budget programming generates confusion on public budget executants.

In that sense, public entities continue to run a very large number of activities, programs, and projects, in fragmented, disarticulated manners or with different emphasis in time, which leads to a reduced programs visibility of their managers and their specific responsibility towards expected results from the public resources usage. The implementations of such actions end up focusing on consumables, but not on Products or Results.

To overcome the weakness of State's actions, it is necessary to correct the flaws in the objectives chain, the limited use of technical evidence in programs designing, lack of appropriate indicators for planning and assessment, and the limited relationship between physical targets and the each year allocated budget, and the null use of assessments in the process of budget allocation.

In order to the reform of the public budget national system be effective and lasting it must be comprehensive and systemic, it is required: adjustments in the designing, monitoring and assessment methodology of budget programs to be more efficient and practical; the articulation of the main administrative systems of public expenditure based on harmonization and equivalence of public expenditure tables and codes, development and implementation of new Integrated system of Financial administration whose design includes the registration and governance of budgetary programs with a focus on results, the incorporation programming approach of multi-year Public Expenditure, the effective involvement of entities in the design and implementation of budget programs, among other items described in this document.

Result-based budgets requires that the production function of each program and the responsibility of its manager are clearly defined and having the capacity and commitment to manage the resources at its office to deliver the products necessary to achieve the expected program result.

To control and reduce the risk of institutional vision primacy at the logic expense of the result expected by citizens, it is necessary to form multidisciplinary support teams on the budget programs designing, but it cannot be thought of implementing a budget for results back to public entities that establish and/or implement public policy.

The new SIAF is an excellent opportunity to implement comprehensive and systematic reform of the national public budget and contribute effectively to increase the quality of public expenditure.